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TAGS: ECON EC ECON EPET ETRD PREL VZ EINV
SUBJECT: ECUADOR SIGNS MORE ENERGY AGREEMENTS WITH VENEZUELA

REF: A. QUITO 1315

¶B. QUITO 1438

¶1. (U) Summary. Ecuador's and Venezuela's state energy companies PetroEcuador and PDVSA yesterday signed a pair of energy agreements, following a series of technical meetings this month. Venezuela's Energy Minister Rafael Ramirez and acting PetroEcuador President Walter Lopez were joined by Ecuadorian Energy Minister Ivan Rodriguez last night to forge two agreements, a strategic alliance and an agreement to exchange Ecuador's crude from Block 15 for PDVSA refined products, implementing those signed on May 30 (reftel A). Early analysis by industry experts suggests Ecuador gains nothing and may lose money on the deal. End summary.

Strategic Alliance

¶2. (U) The strategic alliance spans the entire energy production chain, including hydrocarbons exploration, production and refining, as well as transportation, storage, petroleum services, and training. The alliance is for five years, can be renewed anytime, and permits direct collaboration between PetroEcuador and PDVSA.

Oil Exchange Agreement

¶3. (U) In contrast to the agreement signed last month, (reftel A) PetroEcuador will exchange its oil for refined products from PDVSA's own crude. PetroEcuador will provide PDVSA up to 100,000 barrels a day of crude from Block 15's Napo field (Oxy's former field) in exchange for an equivalent amount of PDVSA's refined products. The agreement is valid for one year and is automatically renewed unless a 90 day written notification is provided by either party. Volumes will fluctuate monthly based on market prices for the various products. Although lacking specifics, press reports suggest the first shipment could include 65,000 barrels of crude in exchange for 23,000 barrels of diesel, 17,000 barrels of high octane gasoline, and 3,000 barrels of butane.

¶4. (U) The agreement contains no details on the transaction

and requires two subsequent contracts that outline the shipment of crude and the provision of refined products, which Ecuadorian Energy Minister Rodriguez announced will be signed next week. Venezuela previously said it would charge $5 a barrel in refinement costs (reftel B), however press reports say the agreement signed yesterday requires Venezuela to incur transport and insurance costs, and to pick up and deliver the oil and refined products at Ecuador's Port Esmeraldas. Venezuela announced it is already prepared to accept the first shipment of Ecuadorian crude, however press reports indicated the first shipment would not occur until after August 1.

¶5. (SBU) Initial private analysis by two independent Embassy contacts suggests that the GOE will gain little, and may lose, on this deal. Necessarily limited by the sketchy information so far available, both analyses predict financial losses from the deal. While one local economist tells us that losses are likely but will not be great, the other, more grounded in the industry, believes multimillion dollar losses are more likely.

Committees

¶6. (U) Venezuelan Energy Minister Ivan Rodriguez also announced PDVSA has opened an office in Quito. The agreements create two committees, which will meet monthly in Caracas or Quito, to identify and recommend projects of mutual interest and to coordinate the oil and refined products exchanges. Each country will have three representatives.

Comment

¶7. (U) Clearly this is a political move on the part of the GOE, intended to demonstrate how the country is capitalizing on its takeover of Block 15 from Oxy and how the government is benefiting the citizenry. The press has bought much of the argument, so far, and today's reports state that Ecuador postponed the signing ceremony from last week until it had secured an agreement that provided maximum benefits to the country. The economics of the agreement suggest, however, that the GOE will more likely lose than gain from the deal. Press reports say the GOE expects to save $3-11 million a month, but the GOE will be lucky to break even. Based on current Ecuadorian crude and refined products prices, Ecuador would need to secure a deal at least as good as the 65,000 barrels of crude in exchange for 43,000 barrels of refined products if it hopes to get even a few million in profits. More likely, though, is that the GOE will get the short end of the stick on the oil exchange, with perhaps a select few Ecuadorians behind the scenes profiting on the deal.
JEWELL